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Agenda item 91 (a)
Macroeconomic policy questions: trade and development

Follow-up to agreed conclusions 1997/1 of the Economic and Social Council

Note by the Secretary-General

1. During the high-level segment of its substantive session of 1997, the Economic and Social Council carried out a comprehensive review of the theme "Fostering an enabling environment for development: financial flows, including capital flows, investment and trade". It adopted agreed conclusions 1997/1, which contained a framework for international cooperation and national policies and covered policy issues as they related to policy coherence, marginalization, official development assistance, external debt, volatility and vulnerability, foreign direct investment, and trade and commodities (A/52/3, chap. II, para. 5).

2. At the fifty-second session, the General Assembly adopted resolution 52/182 on international trade and development, and thereby confirmed the relevant sections of the Council agreed conclusions 1997/1. In paragraph 35 of the resolution, the General Assembly requested the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), to report to the Assembly at its fifty-third session on recommendations for effective follow-up to the relevant sections of agreed conclusions 1997/1 of the Economic and Social Council.

3. The present report provides information on action taken by the United Nations in the various areas covered by the agreed conclusions. The structure of the report is based on that of agreed conclusions.

4. Further follow-up to the agreed conclusions should be pursued in the light of the consideration and action under way within the United Nations system in these various areas, including at the current session of the General Assembly, the 1998 annual meetings of the International Monetary Fund (IMF) and the World Bank and in the World Trade Organization (WTO).

Framework for international cooperation and national policies

5. In its agreed conclusions 1997/1, the Economic and Social Council agreed that "international cooperation and partnership have a vital role in creating a favourable climate in which capital flows, investment and trade can flourish". In pursuit of strengthened international cooperation, the General Assembly at its fifty-second session adopted resolution 52/186 on renewal of the dialogue on strengthening international economic cooperation for development through partnership. In the light of that resolution, a high-level dialogue on the theme of the social and economic impact of globalization and interdependence and their policy implications was held by the General Assembly on 17 and 18 September 1998. During the dialogue, it was stressed that for better integration into the world economy, countries needed to adopt sound macroeconomic policies and develop effective institutional and legal frameworks and the necessary physical and human

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infrastructures. Institutional constraints normally linked to weak capital markets and inadequate regulations should be addressed in order to strengthen the confidence of investors, both domestic and foreign, and decrease the volatility of financial flows. At the same time, it was acknowledged that national efforts to meet the challenges of globalization, in particular institution-building, were necessary but were not sufficient. Action on a global scale, involving multilateral institutions as well as the world's leading economies was imperative. In particular, the need for a transparent rule-based trading system was stressed, which would provide a level playing field to allow the benefits of globalization to be shared. Although much progress has been made in the area of trade liberalization since the creation of WTO, significant market barriers still exits. Free access to markets is needed, particularly for countries that currently face the threat of marginalization, because these countries are the ones most in need of trade, investment and growth generated by globalization.

Policy issues

6. The Economic and Social Council noted in its agreed conclusions 1997/1 that "with the accelerating integration of the world economy, the interaction between the macroeconomic, structural, trade, financial and development aspects of economic policy-making has increased and is likely to intensify further. In the current economic environment, the question of policy coherence has thus emerged as a critical one for all participants in the global economy". Pursuant to the agreed conclusions, the Council, in April 1998, conducted a special high-level meeting with the Bretton Woods institutions on global financial integration and development and recent issues. During the meeting, many references were made to the need for policy coherence and partnership at all levels, but particularly between the United Nations and the Bretton Woods institutions. As stated in the summary conclusions by the Acting President of the Council, there was a consensus that greater efforts needed to be made to integrate the financial, economic, social and political policies and strategies (E/1998/91, para. 8).

7. In the agreed conclusions 1997/1, the Economic and Social Council agreed that "many developing countries were not able to benefit from the globalization of the world economy over the past decade. Effective measures are called for to assist in their integration into the world economy". In the intergovernmental context of UNCTAD, primary attention is paid to the question of how to reverse the marginalization of countries and to facilitate their integration into the world economy. Such countries have been unable to diversify their economies to any significant extent over the past two decades and thus continue to experience very high commodity dependence. The declining importance of primary commodities in world trade, combined with the loss of market share in world primary-commodity markets suffered by those countries, puts them in a weak position to benefit from globalization. The *Trade and Development Report, 1998*[1] and *The Least Developed Countries: 1998 Report*[2] deal with these issues, which are also to be addressed by the Trade and Development Board at is forty-fifth session, in October 1998.

8. As noted in agreed conclusions 1997/1, "the overall decline in official development assistance (ODA) is a cause for serious concern". Although Governments agreed, in particular, on the importance of reversing this decline and achieving internationally agreed ODA targets as soon as possible, the decline in the flow of ODA has continued. That is, the total ODA of the countries members of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) fell in 1997 to $47.6 billion, or 0.22 per cent of the gross national product (GNP) of the donor countries, the lowest level of that indicator since the United Nations adopted its ODA target of 0.7 per cent of the GNP of donor countries (some of the decline reflected changes in exchange rates against the dollar and some reflected a change in country classification; but even without these factors, ODA declined by more than 3 per cent, according to OECD).

9. As discussed in the report of the Secretary-General on the financing of development, including net transfers of resources between developing countries and developed countries (A/53/228), donors are making important efforts to better manage their ODA programmes and raise the effectiveness of their assistance, although this does not compensate for the decline in ODA flows. In addition, as noted in the report, multilateral financial institutions are increasingly compensating for the sharp limitations on concessional flows from donors by drawing on the earnings of the institutions on their non-concessional lending to middle-income countries. This is a coping mechanism, not a solution to the problem of how to strengthen the flow of ODA.

10. In agreed conclusions 1997/1, the Economic and Social Council noted that "one of the specific obstacles over the past decade to the development efforts of many developing countries, in particular those in Africa and the least developed countries, has been the heavy burden of external debt servicing". At its fifty-second session, the General Assembly adopted resolution 52/185 on enhancing international cooperation towards a durable solution to the

external debt problem of developing countries". Under agenda item 91 (d), the General Assembly will review the report of the Secretary-General, prepared in response to that resolution. The report analyses recent trends in the external debt of developing countries, as well as current approaches to the debt problems of developing countries, and draws some international policy conclusions with a view to making constructive proposals for improvement in current debt workout strategies. The report focuses on the debt problems of two particular groups of countries: the heavily indebted poor countries and the middle-income countries in Asia and Latin America that have been affected by recent financial crises.

11. In the context of its discussions on volatility and vulnerability, the Economic and Social Council agreed that "the increased integration of the world economy has the potential for increased volatility, particularly in international financial markets". In agreed conclusions 1997/1, the Council touched on issues that were considered at its high-level meeting with the Bretton Woods institutions in April 1998 (see para. 6 above). The General Assembly, at its present session, will also address these matters in the context of the report of the Secretary-General requested under resolution 52/180 (A/53/398). That report contains a set of policy conclusions that emerged from joint Secretariat deliberations in an expert group meeting that took place in New York in July 1998. In addition, as also requested by the Assembly in resolution 52/180, the *World Economic and Social Survey, 1998*[3] contains an analysis of current trends in global financial flows as well as recommendations on ways and means to address the volatility of those flows. The *Trade and Development Report, 1998*,[1] as also requested by the Assembly, contains a discussion relevant to this subject. In this context, the Trade and Development Board's deliberations on interdependence at its forty-fifth session (October 1998) will be reported to the General Assembly under agenda item 91 (a).

12. In agreed conclusions 1997/1, the Economic and Social Council noted that "most developing countries have liberalized their FDI [foreign direct investment] alongside their trade regimes". UNCTAD continues to study and report on the implications of trends towards greater liberalization in investment flows. The *World Investment Report, 1998*[4] will discuss developments in this regard, with a focus on changes in the regulatory frameworks for investment. UNCTAD also continues to assist developing countries (especially those in Africa, which were the subject of particular attention in the Council) and countries with economies in transition in attracting foreign investment. In the context of the increasing relationship between investment and trade and the intensification of international discussions on this matter, UNCTAD is developing its work programme of technical studies, regional symposiums and joint UNCTAD/WTO seminars for Geneva-based delegates designed to help developing countries and transition economies strengthen their positions for participation in international discussions and negotiations on FDI.

13. In its agreed conclusions 1997/1, the Council stated that "an open, rule-based, equitable, secure, non-discriminatory, transparent and predictable multilateral trading system is a key element in fostering an enabling environment for development and is also essential for deepening the flow of technology and information around the world". In addition, it noted that "commodity exports continue to play a key role in the economies of many developing countries".

14. The Council, at its substantive session of 1998, devoted its high-level segment to issues or market access. On that occasion, the Council adopted a ministerial communiqué (A/53/3, chap. IV, para. 5) that included an assessment of the implications, opportunities and challenges, in particular for developing countries and the least developed among them, since the conclusions of the Uruguay Round of multilateral trade negotiations. In accordance with paragraph 36 of Assembly resolution 52/182, information on developments in the multilateral trading system, including information relating to WTO, will be included in the oral report of the Secretary-General under agenda item 91 (a).

15. Under agenda item 91 (c), the General Assembly will review the world commodity situation, in the light of the report prepared by UNCTAD in response to General Assembly resolution 51/169 (A/53/319, annex). The report examines recent developments in the commodity economy, including changes in the international environment that may influence its prospects, and considers a number of policy measures that could be taken by the developing countries with associated international cooperation and support.

Conclusion

16. Agreed conclusions 1997/1 of the Economic and Social Council were adopted before the Asian financial crisis had taken hold. As subsequent events have demonstrated, the agreed conclusions turned out to be highly relevant.

17. As the present note amply testifies, a number of events, report and actions have been undertaken over the past year by the United Nations which have had a direct bearing on the implementation of agreed conclusions 1997/1 of the Council. In this context, issues relating to the rapidly increasing economic interdependence of countries that has

characterized the globalization phenomenon over the past decade, particularly the interrelated trade, investment, technology and sustainable development issues, have been under continuous consideration by the Trade and Development Board, including during its consideration of preparations for the tenth session of UNCTAD. Further actions, both under the auspices of the General Assembly and of the Council are to be expected, most notably the working group of the General Assembly on the possible convening of the international conference on the financing of development as well as the possible convening of a special meeting of the Council proximate to the spring meetings of IMF and the World Bank. It is to be expected that these gatherings, as well as the current debate in the General Assembly, will provide further impetus to the follow-up of agreed conclusions 1997/1 of the Council.

Notes

[1] United Nations publication, Sales No. E.98.II.D.6.

[2] United Nations publication, forthcoming.

[3] United Nations publication, Sales No. E.98.II.C.1.

[4] United Nations publication, forthcoming.

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United Nations pension system

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the United Nations Joint Staff Pension Board to the General Assembly at its fifty-third session.[1] The Committee also had before it the report of the Secretary-General on the investments of the United Nations Joint Staff Pension Fund (A/C.5/53/18) and the report of the Board of Auditors to the General Assembly on the accounts of the Fund for the biennium ended 31 December 1997.[2] In addition, the Committee was provided with a copy of a concept paper on administrative arrangements between the Fund and other member organizations prepared by the secretariat of the Pension Fund[3] and an advance copy of the Secretary-General's report (A/C.5/53/3) on the administrative and financial implications that would arise to the regular budget of the United Nations should the General Assembly adopt the recommendations submitted to it in the report of the Pension Board. During its consideration of these matters, the Committee met with the Chairman of the Pension Board, representatives of the Secretary-General and the secretariat of the Pension Fund.

II. Actuarial matters

2. Paragraphs 14 to 47 of the report of the Pension Board deal with actuarial matters, including the results of the twenty-fourth actuarial valuation of the Fund as at 31 December 1997; the previous valuation was prepared as at 31 December 1995 and its results were reported to the General Assembly at its fifty-first session in 1996.[4] The actuarial valuation determines whether the present and estimated future assets of the Fund will be sufficient to meet its liabilities.

3. The Advisory Committee notes from paragraph 18 of the current report that the Pension Board approved the actuarial assumptions recommended by the Committee of Actuaries to serve as the basis for the twenty-fourth actuarial valuation, prepared as at 31 December 1997. Paragraph 20 of the report gives the results of the twenty-fourth regular valuation as compared to the results of the previous valuation as at 31 December 1995. The economic assumptions for the regular valuation as at 31 December 1997 were the same as those used in the previous valuation; however, with respect to the growth of participants, a "zero participant growth assumption" served as the basis for the regular valuation as at 31 December 1997.

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4. As indicated in paragraphs 21 to 24 of the Pension Board's report, the twenty-fourth regular valuation showed, as at 31 December 1997, a decrease of 1.82 per cent in the required contribution rate (from 25.16 to 23.34 per cent), resulting in an actuarial surplus of 0.36 per cent of the pensionable remuneration. The elements contributing to the decrease in the required rate of contribution are described in paragraph 22. That result was mainly owing to the strengthening of the United States dollar and the investment returns since the last valuation.

5. In paragraphs 26 to 28 of the report of the Pension Board, the results of the actuarial valuation of the Fund are also presented in dollar terms and compared to the magnitude of projected liabilities of the Fund as at 31 December 1997. The surplus of $417.3 million under the regular valuation as at 31 December 1997 represented only 1.0 per cent of the projected liabilities of the Fund. The projected deficit under the regular valuation as at 31 December 1995 had been $1,688.7 million, which had represented 4 per cent of the projected liabilities of the Fund. Upon request, the Committee was furnished with a table showing the evolution of actuarial valuation of the Fund since 1976, both in absolute terms and as a percentage of projected liabilities (see annex I to the present report). The Advisory Committee notes that, for the first time, since the valuation as at 31 December 1976, the regular valuation as at 31 December 1997 disclosed a small surplus when measured against the present contribution rate of 23.7 per cent of pensionable remuneration.

6. In paragraph 37 of its report, the Pension Board noted the conclusion of the Committee of Actuaries that "the present contribution rate of 23.7 per cent of pensionable remuneration remained appropriate and should be retained, pending review on the occasion of the next valuation". The Advisory Committee agrees with that view and recommends that the present contribution rate of 23.7 per cent be retained. In the view of the Committee, the Board should continue to monitor closely the evolution of the actuarial valuation of the Fund and no attempt should be made to reduce the present rate of contributions to the Fund or change any other features unless and until a pattern of surpluses emerges in future valuations.

7. A review of the subject of interest rates applicable to lump-sum commutations of periodic benefits under article 28 (g) of the regulations of the Fund is discussed in paragraphs 38 to 47 of the Pension Board's report. The Advisory Committee notes from paragraphs 44 to 47 of the report that the Board decided on a conservative basis "to change the rate applicable to lump-sum commutations to 6 per cent, with respect to contributory service performed as from 1 January 2001, subject to a favourable actuarial valuation as at 31 December 1999" (para. 46). However, on a strictly technical basis, the Consulting Actuary indicated that the interest rate for lump-sum commutation ought to be set at a uniform rate of about 4 per cent and that the rate has been set, at least since 1984, by the Board at higher levels in order to help the Fund's actuarial valuation. The Advisory Committee recommends that the matter be maintained under review in the light of the results of future actuarial valuations of the Fund.

8. A proposal to change the method for determining cost-of-living adjustments of pensions in award is discussed in paragraphs 330 to 339 of the Board's report. The Board decided to recommend to the General Assembly that the threshold for effecting cost-of-living adjustments of pensions in award be reduced from 3 to 2 per cent, with effect from the adjustment due on 1 April 2001, subject to a favourable actuarial valuation as at 31 December 1999.

9. The Advisory Committee was informed that, as requested by the Pension Board, the Secretary of the Board, with the assistance of the Consulting Actuary, would review all changes made in the pension system since 1983, when measures were approved by the General Assembly to redress the past actuarial deficit of the Fund. The results of the review would be submitted to the Standing Committee of the Board in 1999, together with the views of the Committee of Actuaries. The Board would consider in 2000 the views and recommendations of the Standing Committee, in the light of the results of the actuarial valuation as at 31 December 1999.

III. Investments of the Pension Fund

10. As stated by the Secretary-General in his report (A/C.5/53/18, paras. 19 and 27), the market value of the Fund's assets increased by $4,631 million, from $15,539 million on 31 March 1996 to $20,170 million on 31 March 1998, or 29.8 per cent. The total investment returns for the year ended 31 March 1997 and 31 March 1998 were 8.9 per cent and 20.4 per cent, respectively. After adjustment by the United States consumer price index, the "real" rates of return for the years ended 31 March 1997 and 31 March 1998 were 5.9 per cent and 18.9 per cent, respectively. The cumulative annualized total rate of return over the 38-year period for which data are available was 9 per cent, or a "real" rate of return of 3.8 per cent, after adjustment by the United States consumer price index. The Committee is aware that the market value of the Fund is subject to fluctuation.

11. The Advisory Committee notes that, pursuant to General Assembly resolution 49/224 of 23 December 1994, the Secretary-General has begun to develop a benchmark to compare the Fund's performance with major international equity and bond indexes. The benchmark was implemented in January 1997 (A/C.5/53/18, para. 33).

IV. Investments Committee

12. Article 20 of the Regulations of the Fund provides that members of the Investments Committee shall be appointed by the Secretary-General after consultation with the Pension Board and the Advisory Committee on Administrative and Budgetary Questions, subject to confirmation by the General Assembly.[5] The Secretary-General conveyed to the Board the names of three members of the Investments Committee, whom he intended to propose to the General Assembly for confirmation at its fifty-third session, after consultation with the Advisory Committee.[6] The Committee has written in this regard to the Secretary-General to convey its concurrence.

V. Financial statements of the Fund and report of the Board of Auditors

13. The Pension Board examined and approved the financial statements and related data on the operations of the Fund for the biennium ended 31 December 1997 and considered the findings and recommendations of the Board of Auditors.[7]

14. On the issue of insurance coverage for the Fund's investments in equities,[8] the Pension Board noted that the Board of Auditors had considered that the assets of the Fund had not been adequately protected and had recommended that the contracts with the Fund's custodians should be reviewed, with a view to providing adequate insurance coverage. The amounts fixed in the agreements between the Fund and the custodians had showed inconsistencies in the amounts fixed in the agreements in relation to the assets in the custody or control of the custodians, which ranged between 0.2 and 8.2 per cent of the market value of the assets held by the Fund's custodians. The Pension Board therefore recommended that the matter be reviewed, with a view to providing adequate insurance coverage.[9]

15. In his reply,[10] the Secretary-General indicated that it was not an industry practice for the custodians to maintain insurance against the entire value of the assets they hold. "The custody agreement between the Fund and its custodians requires the custodians to maintain insurance coverage at all times on assets in their custody or under their control against losses arising out of employee dishonesty, on-premises and in-transit loss of assets, and forgery or alteration, including forgery of securities and counterfeit currency".[11] Accordingly, the amounts fixed in the agreement between the Fund and its custodians are not the same for each custodian. Furthermore, once the securities were segregated, in accounts established in the name of the United Nations for the Fund, they were protected from all third-party claims, including those arising from bankruptcy of the custodians. The Advisory Committee notes that the Secretary-General is reviewing the matter and will provide information to the Pension Board on any action that may be necessary in due course, taking into account the desire both to ensure security and avoid unnecessary cost increases.[12] In the light of the views stated by the Secretary-General, the Committee believes that there is no need to maintain insurance against the entire value of the assets held by the custodians.

16. On the issue of the verification of thumbprints and signatures in respect of certificates of entitlement returned by Fund beneficiaries,[13] the Advisory Committee is of the view that, regardless of the system finally implemented, it must remain cost-effective.

17. On the subject of arrangements for internal audit of the Fund's operations,[14] the Board agreed to continue with the Office of Internal Oversight Services as the Fund's internal auditors at least until the end of the biennium 2000–2001. The Board also recognized that, since the Fund was an inter-agency entity, it may be more appropriate in the long term for the internal auditing of the Fund to be carried out by an office within the secretariat of the Fund, reporting directly to the Chief Executive Officer of the Fund. In the meantime, the Board agreed to keep under review the effectiveness of the internal audit work performed by Office of Internal Oversight Services and to revert to the matter in 2000, based on a detailed report to be submitted to the Board. It also agreed that the arrangements for internal audit of the Fund should form part of the comprehensive study on the Fund's long-term administrative requirements.

VI. Administrative arrangements between the Fund and the United Nations and with other member organizations

18. The Advisory Committee welcomes the concept paper[3] which provides a review of the current cost-sharing

arrangements between the Fund and the United Nations and with other member organizations. The paper includes proposals for changes in those arrangements, in respect of the pension services provided by the Fund secretariat for the active participants employed by the United Nations and its affiliate programmes (i.e., the United Nations Children's Fund (UNICEF), the United Nations Development Programme (UNDP) and the United Nations Population Fund (UNFPA). It also discusses the relationship of the secretariat of the Fund with the other member organizations and the costs related thereto and provides a perspective for possible future developments and long-term needs of the Fund in respect of, *inter alia,* its computer systems and operations, the role of the Geneva office of the secretariat of the Fund and the issue of office space occupied by the secretariat of the Fund in New York and Geneva. Background information on these matters is provided in paragraphs 109 to 129 of the report of the Pension Board.

19. As indicated in paragraph 202 of its report, the Board decided, *inter alia,* to recommend to the General Assembly acceptance of the cost-sharing proposals between the Fund and the United Nations, as presented in the concept paper. Accordingly, the United Nations regular budget would continue to provide for one third of the total cost of established posts of the secretariat of the Fund, related common staff costs and overtime, as well as a contribution to the identifiable costs of communications. This one-third/two-third cost-sharing formula between the United Nations and the Fund would also be used for costs related to temporary assistance, computer services, office space and audit of the Fund's operations. The United Nations would continue to fully absorb the costs related to the other services and facilities provided to the Fund, such as staff payroll processing, personnel and procurement services and miscellaneous supplies. The cost-sharing formula would take effect on 1 January 1999 and would be reviewed every six years.[15]

20. As shown in paragraph 166 of the Board's report, the increase in the administrative cost of the Fund under the revised cost-sharing formula between the United Nations and the Fund would amount to $730,800, as from 1 January 1999. Based on the expected additional costs to be borne by the Fund and the drop in the level of total pensionable remuneration due to exchange-rate fluctuation,[16] the Committee of Actuaries estimated that the administrative costs of the Fund were likely to rise to the order of 0.25 per cent of pensionable remuneration.[17]

21. The implications for the regular budget of the United Nations of the revised cost-sharing formula between the United Nations (inclusive of UNICEF, UNDP and UNFPA) and the Fund are shown in the report of the Secretary-General (A/C.5/53/3). For the reasons explained in paragraphs 9 to 12, and as shown in table 1, of that report, the Secretary-General estimates that, should the General Assembly agree to the revised cost-sharing formula approved by the Pension Board, there will be a decrease of $625,400 in the net regular budget of the United Nations. The reduction is the net effect of lessened requirements of $94,800 spread across a range of objects of expenditures in the Fund's administrative budget, combined with a credit of $530,600 due in respect of premises otherwise billable. The Advisory Committee notes that for the current biennium no additional cost will be recovered from UNICEF, UNDP and UNFPA. Consultations will be held with those organizations and their outcome will be addressed in the following biennium (see A/C.5/53/3, para. 13).

22. In its report to the Board, the Committee of Actuaries took the view that the administrative expenses to be included in the valuations should be based on the level of resources required to administer the Fund, as contained in its approved budgets, rather than by establishing a predetermined ratio between the administrative expenses and the total pensionable remuneration.[18] The Advisory Committee agrees with that view on the understanding that the policy of administrative cost restraint would continue. Further, the Committee believes that the actuarial implications of the total administrative cost of the Fund should continue to be monitored.

23. With regard to addressing future requirements of the Fund,[19] the Advisory Committee welcomes the ongoing studies on computer arrangements, the role of the Fund's Geneva office, the overall staffing structure of the Fund secretariat and the need for additional office space. The Committee notes that the Secretary of the Pension Board will submit a report on these matters in conjunction with the Fund's budget proposals for the biennium 2000–2001.[20] The Committee recommends caution on moving to establish some small regional offices for servicing a worldwide pension operation.[21] In the Committee's opinion, there is at present no compelling reason for establishing such offices.

24. Revised administrative expenses for the biennium 1998–1999 are discussed in paragraphs 203 to 244 of the Board's report. The Board recommended to the General Assembly approval of additional expenses amounting to $4,161,700 net over the initial appropriation of $50,069,500 for the biennium 1998–1999.[22] Table 2 of annex VIII of the Board's report shows a summary of the changes by object of expenditure. The Advisory Committee does not have any objection to that proposal. The Committee believes that the presentation of that section of the report could be improved

by providing most of the information in tabular form, thereby avoiding lengthy and repetitive descriptions in the narratives.

25. The Advisory Committee notes from paragraph 238 of the report that the Board also agreed with the need to provide an improved operational management structure for the Investment Management Service of the Fund and, consequently, endorsed the reclassification of the post of the Chief of the Service, from the D-1 to the D-2 level. The Committee agrees with that proposal.

26. In paragraphs 236 to 237 of its report, the Pension Board makes recommendations with regard to the level and the title of the post of the Secretary of the Board. It proposes the reclassification of the post to a level above the present D-2 grade and favoured making the post an "ungraded" post, with a base salary and related allowances set at the mid-point between the top step of the D-2 level and the Assistant Secretary-General level. The Board also recommends a change in the present title of the post to "Chief Executive Officer of the Fund and Executive Secretary of the Board" and, accordingly, changes in the relevant Regulations of the Fund to reflect that proposal.[23]

27. The proposal of the Board reminds the Advisory Committee of a similar proposal made by the Secretary-General in 1993 to create a D-3 level for a very limited number of posts (see A/C.5/47/88). In its related report, the Advisory Committee put forward a number of considerations which led it to recommend against the expansion of the Director category, including the eventual pressure to create more posts at that level, the potential for administrative confusion and the difficulties in the exercise of authority by what would be "a second-class Assistant Secretary-General".[24] The proposal to create a D-3 level was eventually withdrawn by the Secretary-General. For similar reasons, the Advisory Committee is against the establishment of an "ungraded" level for the Chief Executive Officer of the Pension Fund. It believes that the responsibilities of the post, which have greatly expanded in recent years (see para. 235 of the report of the Board), justify its upgrading to the Assistant Secretary-General level.

28. With respect to the changes in the title of the post of the Secretary of the Board and the corresponding changes in the Regulations of the Fund, the Advisory Committee agrees with the proposal of changing the title of the post to "Chief Executive Officer" of the United Nations Joint Staff Pension Fund, which would reflect the actual responsibilities carried out by the incumbent as the head of a large and complex pension operation. However, the Committee is of the view that, since one of the functions of the Chief Executive Officer is to serve as Secretary of the Board, there is no reason to change that functional title to "Executive Secretary of the Board". Accordingly, article 7 (a) of the Regulations of the United Nations Joint Staff Pension Fund could read:

> "The Chief Executive Officer of the Fund and a Deputy shall be appointed by the Secretary-General on the recommendation of the Board."

Article 7 (c) could read:

> "The Chief Executive Officer shall perform that function under the authority of the Board and shall certify for payment all benefits properly payable under these Regulations. The Chief Executive Officer shall also serve as Secretary of the Board. In the absence of the Chief Executive Officer of the Fund, the Deputy Chief Executive Officer shall perform these functions."

VII. Other matters

29. As regards entitlement to survivors' benefits for spouses and former spouses,[25] the Advisory Committee agrees with the recommendations of the Pension Board to the General Assembly, as indicated in paragraphs 290, 303 and 312 of the Board's report.

30. On the subject of the review by the International Civil Service Commission of the common scale of staff assessment for pensionable remuneration purposes,[26] the Advisory Committee shares the view of the Pension Board, as indicated in paragraph 348 of the Board's report.

31. With regard to the possible withdrawal of the Interim Commission for the International Trade Organization/General Agreement on Tariffs and Trade (ICITO/GATT) from the membership of the Fund,[27] the Advisory Committee was informed that, on several occasions, the Committee of Actuaries and the Board had discussed the methodology to be used to determine the proportionate share of the Fund's assets, payable under article 16 of the Fund's Regulations to a withdrawing organization. The Chairman of the Pension Board informed the Committee that the actuarial consultants retained by the World Trade Organization (WTO) have presented differing views regarding the methodology; they also prepared documents certifying the costs of the proposed new salary and pension arrangements of WTO. Based upon that information, the WTO General Council is expected to take a decision on 15 October 1998 as to whether to apply formally for termination of the membership of ICITO/GATT in the Fund.

32. The Committee was informed that, if WTO submits a formal application for withdrawal, there would be need for a special meeting of the Committee of Actuaries during the first part of November 1998, probably in Geneva, followed by a special session of the Pension Board to act on the recommendations of the Committee of Actuaries and, accordingly, make recommendations to the General Assembly at its fifty-third session. The Advisory Committee recalls that, as indicated in paragraph 300 of the Pension Board's report to the General Assembly at its fifty-first session,[28] with regard to the possible withdrawal of ICITO/GATT, the Board agreed that, just as with any other organization in that position, ICITO/GATT would have to meet the costs that would be incurred by the Fund in responding to any formal request for withdrawal from the Fund, including the costs of any special session of the Board. Upon inquiry, the Committee was informed that such cost reimbursement would also include the costs associated with the special meeting of the Committee of Actuaries.

Notes

[1] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 9* (A/53/9).

[2] Ibid., annex III.

[3] JSPB/48/R.18 and Add.1.

[4] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 9* (A/51/9), paragraphs. 15-51.

[5] See Regulations and Rules of the United Nations Joint Staff Pension Fund (JSPB/G.4/Rev.14).

[6] Ibid., para. 79.

[7] Ibid., annexes II and III.

[8] Ibid., annex III, paras. 23-26.

[9] Ibid., *Supplement No. 9* (A/53/9), para. 85.

[10] Ibid., annex III, para. 25.

[11] Ibid., para. 23.

[12] Ibid., *Supplement No. 9* (A/53/9), paras. 85-86.

[13] Ibid., annex III, paras. 37-40.

[14] Ibid., *Supplement No. 9* (A/53/9), paras. 90-98.

[15] *Official Records of the General Assembly, Fifty-third Session, Supplement No. 9* (A/53/9), paras. 157-165.

[16] Ibid., para. 175 (a).

[17] Ibid., para. 173.

[18] Ibid., para. 172.

[19] Ibid., paras. 176-190.

[20] Ibid., para. 202 (c).

[21] Ibid., para. 187.

[22] Ibid., para. 244.

[23] Ibid., annex XV.

[24] Ibid., *Forty-seventh Session, Supplement No. 7* (A/47/7/Add.15), paras. 44-48.

[25] Ibid., *Fifty-third Session, Supplement No. 9* (A/53/9), paras. 279-317.

[26] Ibid., paras. 342-352.

[27] Ibid., paras. 353-355.

[28] Ibid., *Fifty-first Session, Supplement No. 9* (A/51/9).

Annex

Evolution of the actuarial deficit (surplus) of the Fund since 1976 expressed as a percentage of pensionable remuneration, in United States dollars, and as a percentage of projected liabilities

			Deficit (surplus)		
Valuation date	*Regular valuation economic assumptions*[a]	*Required rate of contribution*	*As a percentage of pensionable remuneration*	*In dollar terms (in millions)*	*As percentage of projected liabilities*
31 December 1976[b]	3.5/7.5/3	19.95	(1.05)	(225.0)	3.0
31 December 1978	3.5/7.5/3	21.37	0.37	121.7	1.4
31 December 1980	6.5/9/6	27.82	6.82[c]	5 315.7	22.01
31 December 1982	6.5/9/6				
(a) Before changes on 1 January 1983		29.71	8.41[c]	7 057.6	25.6
(b) After changes on 1 January 1983		25.72	4.79[c]	4 018.4	16.4
31 December 1984	6.5/9/6				
(a) Before changes on 1 January 1984 and 1 January 1985		25.94	4.94[c]	4 490.6	16.5
(b) After changes on 1 January 1984 and 1 January 1985		24.76	3.01[d]	2 734.3	10.4
31 December 1986	6.5/9/6	26.15	4.40[d]	3 187.2	13.2
31 December 1988	6.5/9/6	26.21	3.71[e]	3 133.4	10.9
31 December 1990	6.5/9/6	24.27	0.57[f]	641.0	1.8
31 December 1993	6.5/9/6	25.19[c]	1.49[f]	1 857.1	4.3
31 December 1995	5.5/8.5, with 1.9 per cent cost of two-track system	25.16[f]	1.46[f]	1 688.7	4.0
31 December 1997	(same as 1995)	23.34	(0.34)[f]	(417.3)	1.0

[a] Since 1978, valuations have been carried out on a fully dynamic basis, i.e. inflation assumed to continue indefinitely in future.

[b] Estimated result, showing a surplus, had the 1976 valuation been carried out on a fully dynamic basis.

[c] Excess over contribution rate of 21 per cent.

[d] Excess over contribution rate of 21.75 per cent.

[e] Excess over contribution rate of 22.50 per cent.

[f] Excess over contribution rate of 23.70 per cent.

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Sustainable development and international economic cooperation: Implementation of the outcome of the United Nations Conference on Human Settlements (Habitat II)

Assessment of the United Nations Centre for Human Settlements

Report of the Secretary-General

1. The Secretary-General, in a note submitted to the General Assembly at its fifty-second session, *inter alia*, informed the Assembly that the terms of reference for the assessment of the United Nations Centre for Human Settlements had been submitted to the commission on Human Settlements and that work on the assessment was under way (A/52/539). However, given the transition in the executive leadership of the Centre, and since the exercise needed to be completed in the light of the ongoing process of reform of the United Nations, the Secretary-General intended to submit the final report on the assessment to the Assembly at its fifty-third session, in accordance with his report on renewing the United Nations: a programme for reform (A/51/950, sect. V.D, action 12).

2. After its consideration of the above-mentioned note, the General Assembly, in its resolution 52/190 of 18 December 1997, requested the Secretary-General to submit to it at its fifty-third session the comprehensive and in-depth assessment of the Centre with a view to its revitalization called for in paragraph 19 of Assembly resolution 51/177 of 16 December 1996, taking into account Commission resolution 16/8 and other relevant resolutions adopted by the Commission at its sixteenth session.

I. Basis and scope of the assessment

3. The present assessment is based on several studies carried out since the Second United Nations Conference on Human Settlements (Habitat II), held in Istanbul from 3 to 14 June 1996, including the so-called four-nation study on the assessment of the organization and management of the United Nations Centre for Human Settlements (Habitat) (H5/C/16/CRP.7), which was sponsored by Denmark, the Netherlands, South Africa and Uganda, and on the report of the Office of Internal Oversight Services on the review of the programme and administrative practices of the Centre (A/51/884, annex).

4. In addition, the Task Force on Environment and Human Settlements made some specific recommendations to strengthen the Centre and the United Nations Office at Nairobi (A/53/463). Those recommendations have been taken into account in the present assessment. The relevant recommendations of the Board of Auditors[1] have also been taken into account, as well as the resolutions of the Commission on Human Settlements at its sixteenth session.[2]

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II. Current work programme of the Centre

5. The approach followed by the Centre in managing its substantive work has so far revolved around what is referred to as the work programming and budgeting process. The work programming and budgeting process was designed largely for managing the utilization of the regular budget. It was seen as mandate-driven, and implemented by the Research and Development Division, where a majority of the posts were funded from the regular budget, whereas operational activities, demand-driven and mostly funded by extrabudgetary resources, were predominantly implemented by the Technical Cooperation Division.

6. The financial constraints on the United Nations system has led to greater attention being paid to extrabudgetary resources in programme budgeting procedures. In the past, the Centre has treated the programme planning process as an external bureaucratic requirement, rather than an opportunity for conducting integrated planning capable of galvanizing various activities of the Centre into concerted action. Some of the shortcomings of the process as practised in the Centre can be summarized as follows:

(a) Lack of internal coherence in the subprogrammes as depicted in the work programme. Policy guidelines were not based on lessons learnt by the Centre and were not necessarily used in carrying out operational activities;

(b) Most of the normative activities were mandate-driven and few attempts were made to prioritize activities into an integrated Centre-wide policy;

(c) The work-programme process suffered from a lack of staff participation and was based on a top-down approach;

(d) The Centre, in most cases, failed in transforming its operational activities into policy statements or normative positions. Such policies would give greater meaning to the activities of the Centre and help improve the profile of the organization at the global level.

III. Restructuring proposals

7. Since Habitat II, a series of internal reports on restructuring have been compiled by the Centre. The elements taken into account included the mandate and functions of the Centre as expanded at Habitat II; a changing funding environment; the role and functions of other agencies; the overall reform of the United Nations; consideration of obstacles to an opportunities for restructuring arising from the United Nations system and external political dynamics; changing patterns of work within the Centre associated with increasing earmarked resources; identification and evaluation of the strong programmes and projects in the Centre with a view to building on existing strengths; and the increase in cooperation of non-State partners with the United Nations system.

8. The problems of dispersed and insufficiently focused activities has been addressed in various proposals by the Centre for restructuring the organization. It has been agreed that the Centre should be reorganized along programmatic lines. Progress has been made in introducing mechanisms for self-evaluation at the subprogramme level, as well as in the overall work of the Centre. The establishment of a Programme Review Committee and the formulation of instructions for the Centre to carry out self-evaluation at the subprogramme level are particularly noteworthy.

IV. Finance

9. The financial situation of the Centre is precarious because of a variety of external factors, notably a sizeable decline in core programme resources and a corresponding increase in earmarked contributions, and also because of the lack of timely management response. The financial problems of the Centre stem largely from its inability to utilize resources efficiently and with transparency. In fact, the trend towards earmarking of funds by donors was prompted by the absence, in respect of the United Nations Habitat and Human Settlements Foundation, of proper financial control. The lack of decisive and immediate action to control expenditures and to institute financial management instruments has undermined the performance of the Centre and created donor mistrust.

10. While the merger of the divisions of administration of the United Nations Environment Programme (UNEP) and the Centre into the United Nations Office at Nairobi in 1996 did not initially produce a corporate identity, the measures put in place to strengthen the management of the Office now enable it to fulfil those tasks in a more satisfactory manner.

V. Strengths and weaknesses of the Centre

11. In the context of the present assessment, the strengths, weaknesses, opportunities and uncertainties facing the Centre were also analysed. The substantial strengths of the Centre can be summarized as follows: a committed and well-qualified staff; extensive experience in the field of human settlements; a number of good and well-funded programmes; a strong mandate and well-defined area of responsibility; a relatively small size and flexibility; and the capacity to successfully organize and manage a major international event (Habitat II) and to focus the international community on priority issues in the field of human settlements and shelter. As far as weaknesses are concerned, the following have been identified: a lack of clear long-term strategic direction; an insufficient emphasis on global normative and policy activities; overly dispersed activity and insufficient focus; poorly developed tools to evaluate impact; and a deteriorating financial situation and weakening economic platform.

12. The rather weak resource base, owing to an increasing tendency by donors to earmark funds and a corresponding decline in core programme resources, creates an atmosphere of uncertainty and makes realistic programming difficult. The increased competition among agencies providing technical assistance in the field of human settlement poses another threat to the position of the Centre, as does the tendency under bilateral arrangements to give priority to private companies, universities and international non-governmental organizations to manage particular programmes. Such realities demand that the Centre should do its job better and reposition itself to protect its share of an increasingly competitive market.

13. The Centre will have to play a more innovative and creative role in mobilizing funds by providing intellectual leadership in developing its programme framework; organizational leadership in bringing together the main actors; and financial leadership in using its own resources to leverage additional funds.

14. The Centre must therefore prepare itself to rise to both the challenges and opportunities presented by globalization, the continued decline in core programming resources and the emergence of a competitive market for technical cooperation. Change is necessary if it is to fulfil its role and prosper. The crucial challenge is for the Centre to develop its strategic vision and direction, clarify its mission, focus on limited areas in order to redirect its assessments and strategies and in so doing to make the maximum contribution to human settlements development and the implementation of the Habitat Agenda.

VI. General management

15. The following recommendations have been made regarding the general management of the Centre:

(a) The Centre should build on its success in achieving a higher external profile. A plan for promoting its external image as well as developing and reinforcing its relationship with partners should be drawn up;

(b) Senior management should pay particular attention to improving the internal leadership of the Centre;

(c) Senior management should strive for as much transparency in its activities and decision-making process as possible;

(d) The Centre must put a set of clear and well-defined corporate policies in place. A number of such policies have already been elaborated, but the implementation has been slow. What is needed is to bring them together to give a clear indication of corporate direction and to guide their implementation;

(e) Horizontal and vertical communication is clearly a major problem in the organization and should be addressed as a priority;

(f) The Centre must take steps to develop formal processes of institutional learning.

VII. Financial management

16. Financial management needs to be improved as a matter of priority through the following actions:

(a) Whatever restructuring process is undertaken, it is recommended that the Centre develop and implement a short-, medium- and long-term financial strategy. Special attention should be given not only to the magnitude of funds, but particularly to the complex problem of their composition;

(b) The Centre must pay serious attention to fund-raising. Dedicated and high-level resources are considered necessary for that purpose;

(c) The United Nations Office at Nairobi must continue to improve its financial reporting services and systems so as to allow the Centre to exercise continuous and updated oversight of financial affairs;

(d) The financial basis of the Office must be addressed as a matter of urgency, particularly in the light of the deteriorating financial prognosis for UNEP (the other contributor to the Office) and the need for additional resources for strengthening the programmes of the Office.

VIII. Programme and project management

17. The programme and project management of the Centre should adopt an integrated planning approach based on the following requirements:

(a) Creative rather than formulative use should be made of the medium-term plan, the work programme and the budget process in order to build a clear sense of corporate direction;

(b) Strategic planning and policy guidance need to be developed and systematically linked to the process of evaluation and institutional learning;

(c) The Centre should identify the cross-cutting functions that must be addressed in every subprogramme. If poverty, environment, gender and governance are considered as priority themes, they should be reflected in the design of the related substantive subprogrammes;

(d) Policy guidelines of parameters for formulation and implementation of projects and programmes, in line with a shared strategic outlook, should be drawn up for the Centre as a whole, and all divisions should be required to work within those parameters.

IX. Revitalization

18. Following the report of the United Nations Task Force on Environment and Human Settlements, the Acting Executive Director of the Centre established a revitalization team including experts from Norway, South Africa and the United Kingdom of Great Britain and Northern Ireland. Those experts were assisted by a representative from the Programme Support Services of the United Nations International Drug Control Programme, nominated by the Department of Management of the Secretariat to provide advice on administrative and financial aspects. The team started its work in September 1998 and is expected to complete its task by the end of December 1998. It is to make specific recommendations in order to:

(a) Streamline administrative and financial routines, including specific training of personnel and the provision of adequate technical equipment to overcome current problems at the Centre;

(b) Strengthen the core normative functions of the Centre;

(c) Propose priorities for a more focused agenda for the Centre in the coming years so as to better utilize all the expertise and knowledge available and make the various parts of the Centre work together to achieve maximum synergy;

(d) Recommend necessary changes in the organizational structure of the Centre.

19. The basis for the work of the revitalization team will be the reports mentioned in paragraphs 3 and 4 above. The team will review the recommendations made, their implementation and their effectiveness and make additional proposals where necessary. The Task Force also made some specific recommendations to strengthen the Centre and the United Nations Office at Nairobi. The team will make full use of the recommendations and develop adequate proposals for immediate implementation.

20. While consulting with the senior management and staff at the Centre, the team will develop its own proposals for decisions by the Acting Executive Director, who attaches the highest priority to the work of the team. Senior management has accordingly been instructed to bring all important issues, especially of a policy nature, to the attention of the team leader. The revitalization work is being undertaken by the team in full transparency and it is cooperating closely with the Committee of Permanent Representatives to the Centre. The Acting Executive Director expects to implement the recommendations from the team after consultations with the Committee in order to complete the revitalization of the Centre before the next session of the Commission on Human Settlements to be held in Nairobi from 5 to 14 May 1999. The work programme of the Centre for the biennium 2000–2001 currently under preparation will translate the revitalization process into programmatic priorities and focus on the implementation of the Habitat Agenda at the global, regional, national and local levels.

Notes

[1] See *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5H* (A/51/5/Add.8).

[2] See *Official Records of the General Assembly, Fifty-second Session, Supplement No. 8* (A/52/8).